

# **REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE EKURHULENI METROPOLITAN MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Ekurhuleni Metropolitan Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA); the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA); and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2013, and its financial performance and the cash flow statement for the year then ended in accordance with SA Standards of GRAP, the requirements of the MFMA and DORA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainties**

8. With reference to note 43 to the financial statements, the municipality is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or, and reliably measured, therefore no provision for any liability that may result has been made in the financial statements.

### **Material losses**

9. As disclosed in note 55 to the financial statements, material losses amounting to R557 052 228 (2012: R468 328 692) were incurred as a result of water distribution losses, which represent 31.8% (2012: 30.3%) of total water purchased. The total technical losses of water amounts to 16.3% (2012: 16.2%) and non-technical losses to 15.5% (2012: 14.1%).
10. As disclosed in note 55 to the financial statements, material losses amounting to R696 441 219 (2012: R659 971 483) were incurred as a result of electricity distribution losses, which represent 10.56% (2012: 11.1%) of total electricity purchased. The total technical losses of electricity amounts to 5.9% (2012: 5.9%) and non-technical losses to 4.7% (2012: 5.2%).

### **Material impairment**

11. As disclosed in note 15 to the financial statements, gross consumer debtors amounting to R10 594 597 315 (2012: R9 149 377 025) have a provision for debt impairment of R 7 042 113 875 (2012: R6 141 243 384), this represents 66.5% (2012: 67.1%) of the balance. The contribution to the provision for debt impairment during the year under review was R887 674 953 (2012: R1 442 007 752).

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matter**

15. I draw attention to the matter below. My conclusion is not modified in respect of this matter:

#### **Material adjustments to the annual performance report**

16. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

#### **Compliance with laws and regulations**

17. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

#### **Procurement and contract management**

18. Awards were made to providers whose principal shareholders are persons in service of the municipality in contravention of section 112(j) of the MFMA and Supply Chain Management (SCM) regulations 44. Furthermore the providers failed to declare that they were in the service of the municipality, as required by SCM regulation 13(c).
19. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for councillors and code of conduct for staff members issued in terms of the Municipal Systems Act , schedule 1, section 5(2) and schedule 2, section 5(1).
20. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

#### **Consequence management**

21. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

#### **Expenditure management**

22. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 62(1) (d) of the MFMA.

#### **Human resource management**

23. An acting Chief Financial Officer (CFO) was appointed for a period of more than six months, in contravention of section 56(1)(c) of the Municipal Systems Act.

#### **Internal control**

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

25. The accounting officer did not have sufficient monitoring controls in place to ensure adherence to the relevant laws and regulations.

### **Financial and performance management**

26. Senior management did not monitor compliance with regards to the relevant laws and regulations.
27. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.

## **OTHER REPORTS**

### **Investigations**

28. In terms of the Proclamation No. R 63, 2010, the President of South Africa has assigned the Special Investigating Unit to investigate various issues on the state of affairs of the municipality. The investigation includes supply chain management, fraud and financial misconduct.
29. During the financial year 139 investigations were being conducted of which 80 were being carried forward from the previous financial year by the internal audit division of the municipality. Of these, 83 investigations were finalised and 56 of the investigations were at the field work stage. Circumstances that resulted in investigations pertained mainly to non-compliance with the SCM regulations, fraud and financial misconduct, such as the extending of contracts, misuse of regulation 36(1), irregular awarding of tenders, splitting of payments and quotations from fictitious suppliers.

### **Agreed-upon procedures engagements**

30. As requested by the municipality, an agreed upon procedure engagement was conducted during the year under review concerning the third issue of R800 million notes under the Domestic Medium Term Note Programme. The report covered the period July 2012 to April 2013 and was issued on 13 May 2013.

*Auditor-General*

Johannesburg  
29 November 2013



AUDITOR-GENERAL  
SOUTH AFRICA

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